

Central Intelligence Agency



Washington, D.C. 20505

1 July 1985

MEMORANDUM FOR:

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SUBJECT : Economic and Political Outlook for Greece

1. We are providing below the material you requested as a follow-up to our discussion of 13 June on the economic and political outlook for Greece.

2. What is the general economic outlook for Greece?

The outlook for the Greek economy remains poor. It is unlikely that Prime Minister Papandreou will significantly alter his present economic policies in the wake of his recent election victory (2 June), although he may institute some limited austerity measures. The National Economy Minister indicated during the campaign that free market policies were unacceptable because they would hurt workers and that maintaining real household incomes and protecting jobs would be the government's top priority. According to the IMF, however, Athens will have to implement an adjustment program rapidly if it wants to avoid more serious economic problems. We believe real economic growth will slow in 1985 to about 2 percent and as a result unemployment will probably rise to over 9 percent.

This memorandum was prepared by [redacted] Office of European Analysis. Questions and comments may be directed to the Chief, Western Europe Division [redacted]

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State Dept. review completed

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--During his first term in office, Papandreou followed generally expansionary and interventionist policies to revive a stagnant economy and improve the incomes of workers. GDP growth revived last year to 2.8 percent following three years of no growth--largely because of an improvement in agriculture and mining. Inflation fell from 25 percent in 1981 to 18.4 percent last year, but the drop resulted mainly from tighter price controls. The public sector borrowing requirement reached 15.5 percent, up from 11.3 percent in 1983. The combination of rising labor costs and price controls, as well as Papandreou's sometimes hostile posture toward the private sector, have severely squeezed the profit margins of firms and shaken business confidence. As a result, private investment in real terms fell 12.1 percent in 1984. The growing financial difficulties of business firms have caused unemployment to double in Greece--from 4 percent in 1981 to 8.1 percent last year.

--The balance of payments deteriorated further in 1984. The current account deficit expanded to \$2.2 billion--up from \$1.9 billion in 1983--because of a fall in shipping receipts, an increase in interest payments on growing foreign debt, and a drop in EC subsidies. The external debt grew to \$14.5 billion in 1984, up from \$10 billion in 1981. The debt service ratio reached approximately 25 percent last year. Greece's failure to reduce the country's growing borrowing needs could jeopardize its credit rating and necessitate a debt rescheduling in the next few years.

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3. What are the major trends in foreign exchange earnings?

The Greek economy depends heavily on earnings from invisibles--specifically tourism, shipping, and subsidies from the EC--for foreign exchange. These earnings traditionally have covered approximately two-thirds of Greece's trade deficit.

--Tourism: Tourism accounts for approximately 10 to 15 percent of foreign exchange earnings annually. Tourism receipts fell sharply in both 1982 and 1983--due mainly to the world recession. The number of foreign visitors to Greece fell 2 percent in 1982 and nearly 4 percent in 1983. Tourism receipts rose 12 percent last year to \$1.3 billion. Receipts from tourism are expected to rise about 10 percent in 1985. The actual figure may fall short of the projection due to the travel advisory for Greece issued by the United States in the wake of the hijacking of the TWA flight last week. In 1984, American tourists comprised

about 8 percent of the six million people who visited Greece.

--Shipping: Shipping receipts have fallen steadily since 1981 (when they peaked at \$1.8 billion) to \$1.1 billion in 1984. Much of the decline is likely to be permanent because the number ships in the Greek fleet has fallen from nearly 3,900 at the end of 1981 to 2,788 at the end of 1984 as a result of the world shipping crisis and rising wages for Greek seamen.

--EC Subsidies: In an ironic counterpoint to Prime Minister Papandreou's anti-EC campaign broadsides, EC subsidies have become an increasingly important source of invisible earnings to Greece since its accession to the community in 1981. These transfers soared from \$148 million in 1981 to \$834 million in 1983 before falling back to \$715 million in 1984--mainly because of the depreciation of the European Currency Unit (ECU) against the dollar. Without the EC subsidies, Greece's current account deficit would have set new records in each of the last two years. Subsidies from the EC are likely to remain close to current levels--especially with the new aid granted to Greece under the Integrated Mediterranean Programs (IMPs).

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4. What issues are currently souring Greek-Turkish relations? How likely is conflict?

Tensions in Greek-Turkish relations since the early 1970s stem largely from a tangled web of conflicting claims in the Aegean that touch on Greek and Turkish national security interests. Greeks across the political spectrum see Turkey as a growing regional power with designs on Greek territory, particularly in the Aegean. For their part, the Turks believe that Greece is seeking to preempt what they view as legitimate Turkish rights in the area--a perception intensified after Papandreou first became Prime Minister of Greece in 1981. On occasion, the Greek and Turkish Governments have each raised the level of tensions. Papandreou's rhetorical flourishes have tended to reinforce Turkish perceptions of an intransigent Greece. Similarly, Ankara's periodic penetrations of Greek-claimed airspace have tended to confirm Greek perceptions of an aggressive Turkey. At present, both parties appear intent on preventing minor incidents from mushrooming into open conflict, but events--such as the Turkish Cypriot declaration of independence in late 1983--have severely strained Greek-Turkish relations.

--Continental shelf rights: Greece maintains that its inhabited islands have their own continental shelves--

view bolstered by international conventions. Turkey argues that many of the Greek islands lie on the Anatolian shelf, and it demands an equal share in the economic exploitation and distribution of the Aegean's seabed resources--an issue made more urgent in Ankara's eyes by the discovery of oil there in the early 1970s.

- Territorial waters: Greece's territorial waters currently are set at six nautical miles, but Athens reserves the right to extend its boundaries to twelve nautical miles. Ankara argues that this would cut off Turkey's direct access to international waters and has made known that such an extension could constitute a casus belli.
- Airspace and air traffic control: Since the early 1930s, Greece has claimed an airspace of ten nautical miles around its islands, and it has international sanction to supervise all civilian flights in the Aegean. Athens has insisted that all Turkish aircraft entering its Flight Information Region file flight plans. Turkey recognizes an airspace of only six nautical miles around the islands and does not file plans for military flights, claiming that such flights do not affect safety in the area and therefore do not come under the provisions governing commercial air traffic.
- The militarization of the Aegean islands: Greece claims that the right of national self-defense overrides any treaty provisions providing for the demilitarization of its Aegean islands. It justifies the upgrading of its defenses on the islands by pointing to the Turkish invasion of Cyprus and the creation after 1974 of the Turkish Aegean Army based in Izmir. Turkey argues that the treaties under which the islands were ceded to Greece dictate that they remain demilitarized.
- NATO command and control: Greece withdrew from the military wing of NATO in 1974 to protest the Turkish invasion of Cyprus. Before then, Alliance command and control responsibility in the Aegean fell to Athens. After strenuous negotiations with the Allies--in part aimed at developing a framework for reintegration that would overcome Turkey's objections to Greece's reentry--the conservative government of Prime Minister Karamanlis rejoined NATO in 1980. Under the reentry plan, command and control responsibility in the Aegean was assigned to the Commander-in-Chief, Allied Forces, Southern Europe, pending the resolution of the disputes between Greece and Turkey. Greece is seeking to regain its pre-1974 responsibilities, while Turkey is pressing for some formula that would allow for joint control. The lack of progress on the issue

reflects each side's concern that an agreement might prejudice its other claims in the Aegean.

- Minorities: Greece and Turkey periodically accuse each other of discriminating against the ethnic communities living under their respective jurisdictions. Greece's Muslim minority resides primarily in Thrace--close to the Turkish border--and on the island of Rhodes. The ethnic Greeks in Turkey live primarily in Istanbul and Izmir and on the islands of Imbros and Tenedos. Each side accuses the other of failing to respect the safeguards for minority communities outlined by the 1923 Treaty of Lausanne.
- Cyprus: Although not strictly a bilateral issue, the unresolved Cyprus problem has exacerbated the disputes in the Aegean. Greece points to the Turkish invasion of Cyprus in 1974 as proof of what it views as Ankara's aggressive intentions and has called for the withdrawal of Turkish troops as a precondition for meaningful negotiations between the two Cypriot communities. Turkey claims that it was the Athens-inspired coup against then President and Archbishop Makarios that prompted its intervention and that, as one of the original treaty guarantors of Cypriot independence, it had the right to intervene in order to protect the constitutional order. Ankara also argues that it must maintain a military presence in order to protect the Turkish Cypriot minority pending an acceptable resolution of the intercommunal differences.

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Attachments:

- A. Greece: Economic Indicators
- B. Greece: External Debt
- C. Greece: Balance of Payments
- D. Turkey and Greece: Testing an Understanding (INR study, U.S. Department of State)

SUBJECT: Economic and Political Outlook for Greece

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(28 June 1985)

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Greece: Economic Indicators

	1979	1980	1981	1982	1983	1984 ¹	1985 ²
Real GDP growth	3.7	1.7	-0.3	-0.1	0.3	2.8	2.0
Inflation	19.0	24.8	24.5	21.0	20.5	18.4	17.5
Unemployment ³	1.9	2.8	4.0	5.7	7.8	8.5	9.5
Private Investment (percent change)	8.2	-11.5	-10.3	-4.5	-6.3	-12.1	-5.0
Net Public Sector Borrowing Requirement (percent of GNP)	5.1	7.0	14.3	12.6	11.3	15.5	16.0
Exchange rate (yearly average)	37.0	42.6	55.4	66.8	88.1	112.7	150.0

¹estimates

²projected

³unemployment statistics for Greece are inaccurate due to significant levels of underemployment as well as disguised unemployment in the large agricultural sector

Greece: External Debt*

	1979	1980	1981	1982	1983	1984 ¹	1985 ²
Current Account deficit (in percent of GNP)	4.8	5.3	6.4	4.9	5.5	6.6	7.3
Inflow of private capital as percent of current account deficit	56.0	55.7	49.3	45.0	52.1	40.0	NA
External Debt, gross (in billions of US dollars)	7.6	8.6	10.0	10.6	12.1	14.5	16.7
percent of GNP	19.1	20.7	26.5	27.3	34.7	42.8	51.6
Debt service ratio	9.2	13.4	17.0	18.7	21.9	25.0	28.0

¹estimates²projected, based on the 1985 current account estimate of \$2.2 billion.

Balance of Payments
(in millions of US dollars)

	1979	1980	1981	1982	1983	1984	1985
Trade balance	-6178	-6809	-6697	-5927	-5386	-5379	-5350
Exports, f.o.b.	3932	4094	4771	4141	4105	4400	4750
Imports, c.i.f.	10110	-10903	-11468	-10068	-9491	-9779	-10100
Balance on services and transfers of which	4296	4593	4276	4042	3510	3197	3135
Tourism (net)	1360	1424	1520	1153	814	978	1100
Shipping (net)	1312	1550	1455	1396	1079	928	780
Private transfers (net)	1165	1080	1076	1039	931	903	870
Interest income (net)	-158	-267	-589	-647	-793	-944	-955
EC subsidies	--	--	148	550	834	715	740
Other (net)	617	806	666	551	645	617	600
Current account balance	-1882	-2216	-2421	-1885	-1876	-2182	-2215



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SIA/IMR-----R:364-AR-42-----

mini file

(U) TURKEY AND GREECE: TESTING AN UNDERSTANDING

(C/NF) Summary

In mid-March 1982 Greece and Turkey stepped back from a confrontation in the Aegean continental shelf dispute. But the dispute could return to the level of crisis last reached during the voyage of the Turkish oceanographic ship Sismik in August 1976. That crisis led to the Berne Declaration of November 1976, in which the two countries agreed to manage their disagreement on the demarcation and exploitation of the continental shelf of the Aegean Sea.

A controversy over the Declaration's continuing validity was sparked in January 1982 when Greek-licensed seismic petroleum explorations resumed in international waters in the Aegean. Whether or not the explorations were a violation of the Declaration or related understandings, they were a departure from both countries' practices in the Aegean since 1976. The easing of the near-crisis did not result in reaffirmation of the Berne Declaration.

Each side remains wary, maintaining an increased military posture apparently as a precaution against armed conflict, which neither is yet prepared to rule out. If Greece should permit continued explorations in the Aegean despite its reported promises to halt them, a Turkish challenge--probably beginning with another cruise of the Sismik--would be likely. Thus the question of continued adherence to the Berne Declaration is central to peaceful management of the continental shelf dispute. Though tenuous, the apparently continuing mutual acceptance of the earlier understandings could provide eventual negotiators an advanced point of departure that would obviate the need to renegotiate the difficult first steps toward a settlement.

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RDS-3 4/19/88 (Bellocchi, N.)

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Report 364-AR
April 19, 1982

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(U) The Berne Declaration

The immediate impetus behind the Berne Declaration was the crisis precipitated by explorations conducted in international waters in the Aegean by the Turkish oceanographic ship Sismik I in August 1976. The Sismik's explorations, under naval escort, challenged a Greek contract with a private consortium to explore in a tract in international waters east of the Greek island of Thasos (see map). A Greek appeal to the UN Security Council resulted in Resolution 395, calling upon both parties in the continental shelf dispute to "resume direct negotiations...and do everything in their power to ensure that these resulted in mutually acceptable solutions."^{1/}

After 10 days of negotiations in Berne, on November 11, 1976, both parties signed a declaration consisting of 10 points broadly outlining the conduct of the negotiations, for which no time limits were specified. (See Appendix 1.) A key point is article 6, which states: "Both parties shall undertake to refrain from any initiative or act relating to the continental shelf of the Aegean Sea which might prejudice the negotiations." Until 1981, each side had demonstrated a more specific and apparently mutually acceptable interpretation of article 6 by refraining from exploration in the Aegean outside territorial waters.

Turkish Charge, Greek Reply

(U) On March 2, 1982, the Turkish Foreign Ministry charged that renewed Greek-licensed exploration in international waters east of Thasos, January 19-29, "would be" a violation of article 6 of the Berne Declaration, and it made a formal "inquiry" to the Greek Foreign Ministry. The Turkish Foreign Ministry spokesman stated that "any oil exploration beyond the territorial waters violates a 1976 agreement between Turkey and Greece."

(C/MF) Athens radio reported the Greek reply of the same day which requested a citation of a specific agreement prohibiting exploration in international waters. Since 1976, opposition leaders on both sides (formerly including Andreas Papandreu) had decried alleged secret agreements to refrain from petroleum exploration in international waters of the Aegean. But in pressing

^{1/} (U) Andrew Wilson, The Aegean Dispute, Adelphi paper No. 133, winter 1979-80.

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its accusation, Turkey did not cite any "secret" annexes to the Berne Declaration. In any case, the Greek statement of March 2 implied that the new Greek Government would not recognize such agreements even if they could be shown to exist.

(U) By March 13 Greece had replied to the Turkish inquiry in formal diplomatic channels. A Turkish Ministry of Foreign Affairs spokesman termed the response "positive" and said Turkey looked forward to improved relations. March 24 press reports stated that Greece had agreed to halt further exploration in the disputed area, and they implied Greek reaffirmation of the Berne Declaration. At this point, both parties seemed to have eased away from a developing crisis.

(U) On March 25, however, a Greek official spokesman denied Greece had referred to the "first page" (presumably the public portion) of the Berne document. He added that Greece "considers it its inalienable right to conduct explorations, drilling, and mining on Greece's Aegean continental shelf" and that such programs were "under study." Turkey thereupon demanded "clarification of the Greek position." Greece reiterated its statements of March 13 on April 1 and 3, stating more categorically that "no Greek government message whatsoever exists which refers to or recognizes an agreement between Greece and Turkey on exploration of the Aegean continental shelf."

(C/NF) In early April an official of the consortium conducting development and exploration of northern Aegean petroleum fields for Greece privately confirmed that the consortium had not received orders to shelve plans to drill at least two exploratory wells in the tract east of Thassos in the coming months.

Greek Policy Shift

(C/NF) Regardless of legalistic questions of the force of the Berne Declaration, it is clear that the Papandreu government has broken with established practice in Greece's management of the continental shelf dispute with Turkey.

(U) Shortly after assuming the prime ministership in October 1961, Papandreu broke off high-level and technical bilateral talks on a range of Aegean issues. He maintained that negotiations were pointless if only Greek concessions were to be discussed. Turkish Foreign Minister Turkmen called the freezing of the talks "the aggravating factor in all the [Aegean] disputes," adding that "although there had been no substantial progress in these talks... [they] were necessary even from a psychological standpoint for the two countries."

(LOW) On March 29 the leftist Cumhuriyet reported that the Greek démarche of March 13 had proposed (a) the two countries'

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foreign ministers meet "before summer" to consider the problems between them, and (b) thereafter their secretaries-general continue to hold meeting on details. Cumhuriyet speculated that the NATO ministerial conference in Luxembourg in May would provide a suitable venue. A similar report appeared in I Katherimini in mid-April, indicating the Greek Government was preparing its public for a "dialogue." But a "dialogue" would not necessarily lead to compromise; Papandreu has repeatedly emphasized that "negotiations cannot concern any Greek concessions, since there is no margin for any."

(LOU) More provocative than the break in talks, in the Turkish view, was Greece's renewed permission to an international consortium to conduct seismic exploration of the seabed in the East Thassos tract. All evidence reviewed to date indicates that these soundings were the first undertaken by either side in international waters in the Aegean since the Berne Declaration. (See Appendix 2 for a chronology of Aegean exploration.) Ironically, it was just such seismic exploration by the Turkish ships Cardakli in 1974 and Mora (renamed Sismik in Turkish) in 1976 that drew the strongest Greek protests; Andreas Papandreu, then in the opposition, called to "sink the Mora."

Conclusion: Understandings Still To Be Tested

(C/NP) If the early 1982 near-crisis did not result in a clear reaffirmation of the Berne Declaration, it nonetheless seems to have left it in place. With the Declaration even tacitly recognized, eventual talks could begin at a point well beyond the "square one" of August 1976.

(C/NP) In strictly juridical terms, whether Greece has violated the Berne Declaration is a question of interpretation of a broadly worded agreement. But Greece's break with both sides' practice since the Declaration no doubt fueled Turkish suspicion that Papandreu intends to ignore if not openly reject the Declaration he had harshly criticized as an opposition leader. Though the Turks cautiously professed hope for improved relations following the apparently conciliatory Greek demarche, Papandreu has not overcome Turkish suspicions. In pressing for an unambiguous Greek reaffirmation of the Berne Declaration, the Turks probably sought to test Papandreu's real intentions in the continental shelf and other Aegean disputes.

(C/NP) But on many issues, Papandreu has relied on tactical ambiguity to reconcile the extreme rhetoric of his opposition and campaign days with the more realistic stances he has had to take as leader of the government. An unambiguous public statement of support for the Berne Declaration will remain too costly for Papandreu, but he probably will adhere tacitly to mutually

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beneficial understandings . . . if he will negotiate with Turkey to formulate an Aegean detente. He may need a crisis to renege on his commitment not to negotiate Greece's sovereign rights. The mere resumption of high-level meetings, even without concrete progress or true negotiations, would serve at least temporarily to defuse tensions if accompanied by a cessation of provocations by both sides.

(C) The Greek position on the concurrent Aegean territorial waters dispute may provide an insight into Papandreu's strategy on the continental shelf issue: Papandreu has asserted Greece's right to declare a 12-mile limit at any time; simultaneously, he has given no indication that he will make use of that "right." He apparently hopes such a stance will satisfy his domestic requirements while avoiding a Turkish challenge. Indeed, on occasion the Turks have stated that they would not militarily challenge a mere declaration of a 12-mile territorial seas limit; they would "meet with force" only "attempts to enforce" that limit. Similarly, Papandreu may hope that his steadfast rhetorical assertion of a Greek claim to the resources of the Greek continental shelf under international waters will satisfy his constituency, but fall short of provoking a Turkish military challenge as long as Greece does not actively pursue its claim.

(C/NF) The Law of the Sea convention now in drafting holds by itself no promise of settlement of any of the several Aegean disputes. Turkey insists the treaty should treat the Aegean, with more than 1,000 Greek islands, as a "special case"; Greece sees it as providing legitimacy for the Greek claims in the Aegean. Signing of the treaty thus could exacerbate Aegean tensions.

(C/NF) A new Aegean confrontation might run higher risks of armed clash, but also might provide leaders of both sides with the freedom and pressure often necessary in the past for serious negotiations between Turkey and Greece. Resumed seismic explorations--or, more provocatively, exploratory drilling as still planned by the Greek-licensed consortium--could yet occasion such a dangerous crisis in the coming months. As in March, the biannual Turkish "Sea Wolf" naval exercises scheduled for July 1982 are likely again to raise tensions in the several Aegean disputes.

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(U) Appendix 1**TEXT OF THE BERNÉ DECLARATION^{2/}**

On the procedure to be followed for the delimitation of the continental shelf by Greece and Turkey.

- (1) Both parties agree that negotiations be sincere, detailed and conducted in good faith with a view to reaching an agreement based on mutual consent regarding the delimitation of the continental shelf.
- (2) Both parties agree that these negotiations should, due to their nature, be strictly confidential.
- (3) Both parties reserve their respective positions regarding the delimitation of the continental shelf.
- (4) Both parties undertake the obligation not to use the details of this agreement and the proposals that each will make during the negotiations in any circumstances outside the content of the negotiations.
- (5) Both parties agree no statements or leaks to the press should be made referring to the content of the negotiations unless they commonly agree to do so.
- (6) Both parties undertake to abstain from any initiative or act relating to the continental shelf of the Aegean Sea which might prejudice the negotiations.
- (7) Both parties undertake, as far as the bilateral relations are concerned, to abstain from any initiative or act which would tend to discredit the other party.
- (8) Both parties have agreed to study state practice and international rules on this subject with a view to educing certain principles and practical criteria which could be of use in the delimitation of the continental shelf between the two countries.
- (9) A mixed commission will be set up to this end and will be composed of national representatives.
- (10) Both parties agree to adopt a gradual approach in the course of the negotiations ahead after consulting each other.

Signed in Berné: 11th November 1976. Released in Athens and Ankara: 18th November 1976.

1/ (U) Wilson, op. cit., p. 30.

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Appendix 2**(U) CHRONOLOGY OF AEGEAN PETROLEUM EXPLORATIONS AND THE CONTINENTAL SHELF DISPUTE^{2/}**

- December 1968 (U) Greek junta signs exploration and development contract with Oceanic Exploration Company of Denver, Colorado. Five other US firms join Oceanic in a consortium during 1970-71.
- October 1971 (U) East Thassos I, only exploratory well spudded in international waters. Oil and gas show, but not in commercial quantities.
- 1972 - Present (U) Exploration continues without Turkish challenge in Greek territorial waters west of Thassos.
- November 1972 (U) Gas found in commercial quantities in Greek territorial waters (exploratory well Kavalla I).
- November 1, 1972 (U) Turkey grants oil exploration rights in eastern Aegean to Turkish State Petroleum Company (TPAO). Turkish license includes part of area east of Thassos licensed by Greece.
- February 1974 (U) Oil discovery announced in Prinos field west of Thassos.
- May 22-June 2, 1974 (U) Turkish oceanographic ship Candarli, escorted by 32 warships, explores western limit of Turkish claims.
- June 27, 1974 (U) Greek and Turkish troops placed on alert.
- July 1974 (U) Turkish invasion of Cyprus. Greek junta falls. Cyprus overshadows continental shelf dispute.
- 1974-75 (U) Karamanlis government renegotiates oil exploration contracts.
- 2/ (U) Pre-1975 chronology drawn largely from Wilson, op. cit.

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May 11, 1973

(U) Brussels communique: Both sides agree to resolve continental shelf dispute through negotiations and the International Court of Justice.

June 1973

(U) Greece signs new contract with Oceanic Company, Denison Mines Ltd. (of Canada), et al., permitting exploration and development east and west of Thassos in and outside territorial waters. Contract provides 48-month concession, during which at least six exploratory wells must be drilled.

February 1974

(U) Turkey announces that Hora (later renamed Sismik I) will prospect in disputed waters east of Thassos.

August 4, 1974

(U) Sismik enters disputed area in international waters west of Lesbos, escorted by a minesweeper and one naval aircraft.

August 10, 1974

(U) Greece appeals to UN Security Council.

August 23, 1974

(U) UNSC adopts Resolution 395 calling for resumed negotiations.

August 1974

(U) Oceanic Co. withdraws from consortium.

September 1, 1974

(U) Greece mobilizes Aegean fleet after Turkey announces further Sismik explorations.

September 6-8, 1974

(U) Sismik prospects in disputed claim area east of Thassos.

September 11, 1974

(U) Karamanlis and Demirel governments sign Berne Declaration on conduct of negotiations on the continental shelf dispute.

September 20, 1974

(U) Berne Declaration published in Ankara and Athens. Opposition leaders Ecevit in Turkey and Papandreou in Greece condemn agreement as concession of national rights.

December 1974

(U) Denison Mines Ltd., et al., form North Aegean Petroleum Company (NAPC).

April 1977-March 1978

(U) Exploratory drilling delineates Prinos field in Greek territorial waters off Kavalla west of Thassos.

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JANUARY 1, 1978

(LOU) Karamanlis government invokes force majeure clause of contract with MAPC to suspend exploration rights in international waters. MAPC had completed four of the minimum six required exploratory wells.

Early 1978

(U) MAPC member Fluor Corp. begins development of Prinos field.

MARCH 19-21, 1978

(U) Karamanlis and Ksevit (Prime Minister since January 1978) meet at Montreux, establishing a "sincere and friendly dialogue." Communiqué makes no mention of agreement on settlement, but announces further talks.

1978

(U) TPAO relinquishes rights to explore in several, but not all, tracts in international waters in Aegean.

APRIL 2, 1978

(U) Announcement of bilateral talks at the Ministry of Foreign Affairs (MFA) Secretary General-level, scheduled for April 14; scuttled after US State Department same day announced approach to US Congress to lift arms embargo.

DECEMBER 12, 1978

(U) International Court of Justice refuses to arbitrate Aegean dispute.

SUMMER 1981

(U) Production begins in Prinos field.

OCTOBER 18, 1981

(U) Andreas Papandreu elected Prime Minister.

JANUARY 18, 1982

(LOU) Greece revokes force majeure suspension of MAPC exploration rights, restoring remaining 18 months of term as provided in contract.

JANUARY 19-22, 1982

(C/MF) MAPC conducts sonic seismic explorations, without contact with seabed, in international waters east of Thassos. Southeasterly-most exploration point was 40° 35'N., 25° 18'E. (see map). MAPC reportedly does not intend to explore to the south or east of that point.

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JANUARY-FEBRUARY 1982 (U) Turkish press announces Greek violation of Berne Declaration "to avoid exploration in disputed areas." Turkish MFA announces studies to determine whether exploration took place in disputed areas. Press reports plans for summer 1982 Aegean voyage of Sismik.

March 1, 1982 (U) Turkey announces "inquiry" to Greece on explorations east of Thassos, charging "possible" violations of Berne Declaration.

March 6-21, 1982 (U) Turkish press again reports plans for Sismik voyage. Turkish semiannual "Sea Wolf" naval and air exercises in Aegean. Greece holds air-sea rescue exercises; charges Turkish violations of airspace and Flight Information Region rules.

March 12, 1982 (U) Prime Ministers Uluu and Papandreou make speeches charging each other's countries of aggressive intent, but affirming their own countries' desire for peace.

March 12, 1982 (U) Turkish MFA calls Greek response to its inquiry "positive" and says Turkey looks forward to improved relations.

March 14, 1982 (U) New York Times reports Greece agreed to halt explorations in disputed area.

March 15, 1982 (U) Greek spokesman denies Greek reference to "first page" of Berne Document in reply to Turkey; reaffirms Greece's "inalienable right to conduct exploration, drilling, and mining on Greece's Aegean continental shelf"; states such programs are being studied. Turkey demands "clarification" of Greek position.

March 19, 1982 (U) Turkish Cumhuriyet reports Greek proposal for foreign ministerial bilateral "before summer," speculating that NATO conference in Luxembourg in May will be venue. Greek I Katherimini carries similar report April 18.

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April 1-2, 1982

(U) Greek Government spokesman says Greece made no reference to Berne Declaration and is studying further explorations and drilling in Aegean.

April 28, 1982

(U) Law of the Sea drafting session scheduled to conclude.

July 1982

(U) Second 1982 Turkish "Sea Wolf" naval exercises scheduled.

September 1, 1982

(U) Possible Law of the Sea signing ceremony.

August 18, 1982

(C) NAPC exploration rights due to expire. NAPC plans to drill at least two exploratory wells east of Thassos before this date.

CONFIDENTIAL/NOT RELEASABLE TO FOREIGN NATIONALS